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**HOW TO IMPROVE THE FUTURE OF THE PORTUGUESE HANDICRAFT:  
A CASE STUDY OF ARRAIOLOS RUGS**

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### **Abstract**

Arraiolos rug is a Portuguese handicraft produced since the 16<sup>th</sup> century in the small village of Alentejo that gave it the name. Nowadays, this industry faces a period of recession, since the amount obtained with sales is not enough to cover the costs of production and to pay properly to embroiderers. The large reduction in the number of stores during the last few years indicates that the sustainability of this cultural manifestation is in danger; therefore, this Work Project aims to better understand this scenario and provide suitable recommendations to attract both customers and labor force. The research methodology was mainly qualitative, including in-store observations and short interviews to local embroiderers, store owners and people linked to the business. With this information, it was determined the attractiveness of each group of customers and, based on that, it was possible to select the target and design the marketing plan accordingly. Moreover, recommendations for a structural reformulation were provided to complement the marketing strategy in improving the business performance.

**Key words:** Arraiolos rugs, Portuguese handicraft, strategic plan, marketing

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I could not develop this work project without the support and cooperation of several people; however, I want to dedicate it to a single person: my grandfather, Isidoro Baltazar. Since I was little, I would walk with him around the streets of Évora and visit every exhibition, monument and traditional fair, so, he really taught me to love the surrounding culture. In the last days of his life, he showed me that we should do everything with passion and fight for what we want even when we just see difficulties. Therefore, I just want to thank him for all the inspiration in every stage of this thesis.

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## **I - Contextual background**

### **I.1 - Handicraft conceptually**

The concept of handicraft coexists with Humanity since the caveman period. During Classical Antiquity, handicrafts were produced by slaves, who did not dominate the technical-productive knowledge of this activity, and then delivered to their landowners. At that time, there was not a close relation between the artisan and the product, thus, this activity had no organizational status. Furthermore, the concept was way restrictive, as the use of machinery in production was completely forbidden. According to Aristoteles, machinery was associated with the magic that diverted people from the search for the truth and nature (Brusatin, 1984).

In the Roman Empire, artisans become self-employed, acquiring a certain status (Brusatin, 1984), and their knowledge started to be transmitted from generation to generation.

The artisans of Middle Age started to work in exchange for some remuneration. They moved from the rural areas to the cities, where they opened workshops and formed guilds - associations that grouped individuals with similar interests, aiming to provide assistance and protection to their members. Consequently, handicraft acquired some organizational level and reached a higher importance among the population. The positive valuation of this activity corresponded to the period when liberal arts counteracted mechanical arts, every performance that did not imply workers ingenuity (Brusatin, 1984). From the 12th century onwards, a type of handicraft focused on international trade appears, being highly dependent on the floating market and under the power of international merchants. While in the 13th century, handicraft reaches its peak, in the following 2 centuries, artisans faced the problem of competition, which guilds solved by creating barriers to the access of the master craftsman category.

In Renaissance, an anthropocentric culture emerged, and the concepts of artisan and artist started to be distinguished (Fernandes, 2010). Artisans repeated mechanically a model, instead of creating new aesthetics, and had an important role in the construction of the cities.

The 18th and 19th centuries were marked by the Industrial Revolutions in Europe and the United States, fueled by the introduction of steam power in Britain. This resulted in a huge technological development of rural societies. Goods that had been crafted by hand started to be produced in mass quantities by machines in factories (Fernandes, 2010). So, handicraft assumed a secondary role in the economy and artisans were mistaken with factory workers.

In the 20th century, after World War I, handicraft starts to meet the demand of specific market niches, leveraging the limitations of industrial production. In the 70's, there is the gradual reappearance of this activity linked to the patrimonial awareness, to the rediscovery of the cultural value in crafts and to the interest for the restoration and conservation of those. In the 80's, handicraft starts to be recognized as an important area in the economy, and for social and cultural sectors (Enciclopédia Luso Brasileira, 1998); thus, it was developed a program for the promotion of Portuguese crafts. Moreover, the higher relevance attributed to training incentivized *Centro de Formação Profissional do Artesanato*, in a protocol with the *Instituto de Emprego e Formação Profissional*, to create the means to teach citizens the history and techniques behind several crafts (Luís and Figueira. 2017).

Handicraft evolved a lot through time and so did the perceptions of it. So, a clear notion of what is handicraft after all these changes is needed. According to the law decree no. 41-2001, published in the national official journal, handicraft is the economic activity, with a recognized cultural and social value, which consists in the production, restoration or repair of goods, with artistic or utilitarian value, traditional or contemporary roots. This designation also includes the provision of services of similar nature and the confection of food products.

This activity can be classified given the different roots and functions. Regarding roots, handicraft can be traditional, contemporary and urban. Tradition means “a belief, principle, or way of acting that people in a particular society or group have continued to follow for a long time”, thus, traditional handicraft is like a time machine, as it brings the production techniques

from the past to the present. It works like an identity card of a group of people, projecting the essence of its culture. In contrast, contemporary handicraft is related to the present and, even though it is not an industrialized production, it uses innovative processes and raw materials. Urban handicraft was the term applied by art students who did not want to follow the classical art and started to create other things. Moving to the handicraft functions (ANIMAR, 1998), they can be utilitarian, if the objects are produced to satisfy a necessity, but they can take other roles. For instance, when there was a need to differentiate handicraft from industrial products, an aesthetic and decorative function appeared. Furthermore, this activity can be cultural, patrimonial and symbolic, being used to preserve and restore the traditional values and knowledge; it can be social, as it is a source of income mainly for people with a low level of education and a low investment capacity; it can be pedagogical, forcing students to know the cultural values of their region; and it can be environmental, since most of the crafts don't resort to machinery and, thus, pollution is minimal. Lately, a therapeutic function is attributed to this activity, because it appeals to creativity and makes people forget their problems.

## **I.2 - Arraiolos rugs through the centuries**

Arraiolos is the village that gave the name to a recognized Portuguese handicraft: homemade rugs embroidered with Arraiolos stitch feature linen or linen tow. It is believed that Arraiolos rugs appeared in the 16<sup>th</sup> century. Indeed, the first written reference is dated from 1598, when Catarina Rodrigues, wife of a resident farmer, wrote in the house inventory "*hum tapete da tera novo avalliado em dous mill Reis*" ("a regional rug valued in more than two thousand"). This time span matches with the period when Muslims and Jews were expelled from Lisbon, under the orders of the king D. Manuel I. Therefore, it is believed that the two events are linked. When running away, Muslims and Jews found this small village in Alentejo, which was more tolerant to different religions and had all the necessary conditions to rugs production, the main economic activity of these peoples (Borrvalho & Barroseiro,

2013). Back then, Alentejo was a region of intense cattle breeding, thus sheep wool was the main source of wealth, and 25% of the residents had jobs in the textile sector.

Originally, Arraiolos rugs were clearly influenced by the oriental rugs (Appendix 1) produced in Turkey, Persia and India, that had been imported by the Portuguese elite since the Discoveries. In the 15th century and the first half of the 16th century, Turkish and Moorish carpets, whose main feature was the geometric design, were the main source of inspiration to produce Arraiolos rugs. Afterwards, the producers started to move to a curvilinear and polychromatic aesthetic, present in the Mughal and Persian rugs (Lobo, 2014). Similar to the imported rugs, the decorative scheme consisted of three zones: the center, the background and the border. In the 17th century, the decorative points started to depart from the oriental art, as producers began to use the panels of tiles and the Indo-Portuguese quilts as inspiration.

Taking oriental rugs as a model resulted in visible similarities between these handicrafts; however, they faced a notorious divergence in execution. While Persian and Turkish rugs were produced in looms and the embroidery technique consisted of symmetric and asymmetric nodes, Arraiolos rugs used an oblique cross stitch on linen (Ncultura, 2017).

Oriental inspiration is not the only element that characterizes the oldest Arraiolos rugs. Furthermore, the original handicraft combined two distinct embroidery techniques. Instead of just using the Arraiolos stitch, the drawings were outlined with the stem stitch and only then fulfilled with the Arraiolos one. This technique granted higher precision to the drawings, as the stitch was much smaller. Moreover, embroiderers started by using linen rather than linen tow as base for the rugs, since it has a smaller grid that facilitated the procedure.

Regarding the coloring, it was done resorting to natural dyes: plants that residents would collect in the region or import from the Portuguese colonies. *Laboratório Hércules*, a scientific investigation center of *Universidade de Évora*, has been dedicated to analyze the initial Arraiolos rugs, in order to identify the natural dyes used and the colors they produced.



With this project, it was possible to conclude that natural dyes wear out easily and, thus, the colors changed drastically until today. In fact, the cream color currently observed in the field of the rugs was initially a dark red, resulting from the usage of Brazil-wood. The other natural dyes identified in the longstanding rugs were indigo, surge flax, logwood and weld.

When Portugal turned its attention towards Europe and the new ideas emerging from The Age of Enlightenment, the oriental influence began to fade away, and embroiderers gradually shifted to locally inspired motifs of more popular character (Appendix 2). Birds, flowers, locket, palms and geometric bars started to be embroidered, expressing the Portuguese artistic trajectory and its socio-economic shifts through the eyes of each rug-maker. This led Arraiolos rugs from the middle of the 18th century to the end of the 19th century to be representative pieces of a period marked by creative freedom. Moreover, the handicraft started to be closely related to the village's social life, because it established a link between the houses and the outside. People would walk around Arraiolos' streets and watch women patiently embroidering the rugs in the shade of their houses (Lobo, 2014).

This peak of creative freedom was followed by a period of crisis that started at the end of the 19th century. There was a major decline in the number of rug-makers, which was reflected in a production level close to zero. In 1897, the visual artist and decorator José Queirós started the process of revival of this industry by providing workshops to teach people the art behind Arraiolos rugs. These classes were not only contributing to the resurgence of the art, but also improving the conditions of the population, giving the tools to young orphan girls and girls from the poorest social strata find a job in this industry. Furthermore, the Portuguese public had access to a display of Arraiolos rugs for the first time in 1917, with an exhibition held at *Convento do Carmo* in Lisbon (Lobo, 2014). Consequently, the number of rug-makers increased and so did production. This stage was characterized by a mix of designs, as rug-makers copied elements of the rugs made in the previous centuries.

The second half of the 19th century was marked by the appearance of a synthetic dye industry, when William Pearkin, in 1856, accidentally found out a dye, which he called mauve, while trying to make quinine in his home lab (Bernard, 2018). It is believed that this coloring technique was only introduced in the 20th century Arraiolos rugs to provide lasting colors to the rugs. Since then, the natural dyes were completely abandoned.

There is a question of identity in Arraiolos rugs. They evolved through the centuries, thus, no clear definition of this handicraft can be provided. Although the Arraiolos stitch was kept in the elaboration of the rugs, the motifs, raw materials and embroidery techniques changed considerably. Symbolism was another element kept throughout history, as all rugs reflected power and wealth of the ones who possessed them (Borrvalho & Barroseiro, 2013).

## **II - Methodology**

In order to develop this Work Project, it was needed to gather relevant information about the current performance of this industry. To construct a clear image of how the business is, primary research was used to complement secondary data. Firstly, semi-structured informal interviews were conducted with store owners and with two persons linked to this handicraft: Rui Lobo, the representative of the *Centro Interpretativo do Tapete de Arraiolos*, and Cristina Dias, the person in charge of the project that studied the colors of the rugs, developed by *Laboratório Hércules*. Secondly, in-store observations were used to understand the different customer profiles and their purchasing behavior. Despite the many hours spent in store, the low customer flow did not allow the extraction of a statistically representative sample.

This research required two visits to Arraiolos. The first one took place at an early stage and its main goal was to get the first impressions of this reality. It included a visit to the *Centro Interpretativo do Tapete de Arraiolos* and a short conversation with the embroiderer of this institution; followed by informal interviews (Appendix 3) to the store owners of *Fábrica de Tapetes Hortense* and *Tapetes Artes em Casa*. The second visit was used to gather useful

information for the market segmentation, through observations in three stores (*Vitorino Paulo - Tapetes de Arraiolos*, *Tapetes de Arraiolos Lóios* and *Tapeçaria de Arraiolos - Maria do Sameiro*) and semi-structured interviews to respective owners or rug-makers (Appendix 4). Moreover, the economic value of this business was estimated through these conversations.

### **III - Addressing the Work Project**

#### **III.1 - The current status of this handicraft**

As this business is highly influenced by the macro environment, a PESTEL analysis was performed in this section to describe the current situation of this production.

**Political:** The Portuguese political profile is largely affected by what is happening within the European Union. Brexit is being a major challenge, as the United Kingdom is a relevant player and further trading will be dependent on the outcome of negotiations. Moreover, 2019 was marked by a continued unrest in Catalonia, the crisis of refugees and terrorist attacks. All these events show an increasing popularity in protectionism and nationalism, which can negatively impact the political risk in Portugal. Nevertheless, Portugal obtained a score of 70.9 in the risk index, being inserted in the second most positive category (Marsh, 2019).

**Economic:** If, at the beginning, Portugal benefited a lot from opening the frontiers, the growing interdependence of countries brought by cross-border trade in goods impacted negatively the companies operating in Portugal. During most of the 20th century, the country was isolated from the rest of Europe: the dictatorial regime settled from 1933 to 1975 incentivized nationalism and the government was only focused on the African colonies. However, the longstanding good relations with the UK influenced Portugal to join the European Free Trade Association (EFTA) in 1960, an association with the purpose to eliminate progressively customs duties. Consequently, Portugal was able to import at lower prices and access to developed European countries, taking the first step to move away from a closed economy (Coppolaro & Lains, 2013). When the United Kingdom left EFTA to join the

European Economic Commission (EEC), the advantages of the agreement faded, as the free trade area started to be very restrictive. In 1986, Portugal followed the steps of the United Kingdom and became an EEC member, which immediately resulted in a higher economic growth and improved quality of life, reflected in a higher public and private consumption. When analyzing the Portuguese GDP through the years, the period of stagnation experienced before 1986 was replaced by an exponential growth, with this indicator reaching a value more than 6 times higher in 2008 (Appendix 5). Furthermore, as wages in Portugal were relatively lower, several European companies moved to this country to produce at lower costs.

The same results were not replicated when internationalization reached a global level and developing countries entered in the competition. Even though labor in Portugal was cheaper than in many other European countries, wages in China and other Asian countries were much smaller, thus Portugal lost the comparative advantage that allowed it to compete in prices. In 2001, the entry of China in the World Trade Organization (WTO) aggravated the consequences, since export barriers to products coming from Asia were suppressed. Many companies weren't able to adapt to the new environment and ended up by closing down, others are still trying to get solutions to face this threat and get a place in the market (Cunha, Rego, and Sena-Dias, 2014). It is in this last group that Arraiolos rugs' producers are inserted.

Countries like Brazil, Mozambique, China and the Philippines started to produce counterfeits of the Arraiolos rugs (Portugal Têxtil, 2002). Due to the inexpensive labor force and the positive effects of globalization, these countries were able to fabric the rugs at lower costs and export them worldwide. Even though in the beginning people could easily distinguish the real Arraiolos rug from a counterfeit, the technique of these producers evolved with time and, nowadays, finding differences is hard. Consumers have to touch and smell the rugs, because only the irregularity of the embroidery and the smell of sheep wool can be used to identify a real Arraiolos rug. The problem of counterfeiting reached higher dimensions

when some companies started to send drawings to developing countries, to import the final products and sell them in the village as they have been produced there.

The presence of similar products at more attractive prices resulted in a drop in sales, which was accentuated when a financial crisis hit Portugal in 2011, forcing it to receive intervention from the International Monetary Fund. Remarking macroeconomics theory, consumers saw its budget constraint shrink and had to restrict consumption to basic goods. Since handicrafts are classified as luxurious goods, companies whose business was to sell this type of products were the ones which suffered the most.

The sharp fall in demand decreased both the price and quantity equilibria (Appendix 6), resulting in lower profits for the firms and, thus, less resources to pay to workers. The strategy adopted to fight unfair competition was to keep prices despite the inflation felt in the country, which enhanced the relative drop in wages. Currently, a square meter of Arraiolos rug costs 220€ to 250€ to consumers. When working 7h per day, an embroiderer takes, on average, one month to produce 2 square meters of rug, meaning that the monthly gross revenue per worker does not exceed 500€. To get the net revenue, the expenditures with the store maintenance, purchase and transportation of raw materials, and product promotion still have to be discounted. In the end, the amount generated per worker will be much lower than the national minimum wage, which is currently at 600€. Additionally, embroiderers will only receive a small share of the profit obtained: the biggest slice will go to the owner of the store. Therefore, wages in this sector are around 200€.

The major consequence of a not attractive remuneration was a labor force composed by “people who cannot find another job or are already retired,” as the embroiderer who works to the *CITA* vented. Indeed, labor force is essentially composed by old female workers. Men are stuck to the prejudice that this work should only be done by women, thus, they hide their artistic capabilities and stitch on the sly, selling then the rugs to the stores. Additionally, there

has been a shift of the young generation from the interior to the big coastline cities, where most of the job opportunities are. With wages that are not enough to cover workers' private expenses and guarantee them some quality of life, even the youngsters who decided to stay in Alentejo show little to no interest in learning the techniques required to the production of this handicraft. They look to other industries and sectors, which provide them a more comfortable financial situation. It's easy to notice the discrepancies in the territory, when data shows that 82% of the population with less than 25 years old lives in the coastline (Carvalho, 2018).

If the unfair competition forced several companies to shut down, the combination of it with a low-price strategy and an unattractive work environment worsened the situation. So, the number of stores in Arraiolos decreased from 26 to 9 in the last 16 years (Soares, 2015).

In order to fight the demand contraction, surviving firms started to attribute a higher importance to a, until then, residual source of revenues: repairs, restorations and clearances of rugs and enlarged the product line. Stores began to sell other types of goods, produced with the same embroidery stitch. These goods were typically smaller and consequently cheaper, targeting clients who just wanted to buy a simple souvenir to remember the visit to the village. This initiative reveals a bet on tourism to increase sales, given that the growing popularity of Portugal is putting Alentejo in the routes of international tourists. Indeed, Portugal has been experiencing a positive trend in the number of visits since 2010, which can be explained by the annual increase in foreign tourists (Appendix 7). As the big cosmopolitan centers - Lisbon, Porto and Algarve - started to be too crowded, tourists started to migrate to less popular places, thus, tourism in Alentejo experienced a significant growth. Indeed, when comparing the accumulated data of June 2019 with the corresponding period of last year, there was an increase of 3% in the number of foreign visitors (Appendix 8). Therefore, focusing on this target gives an opportunity to expand the awareness of this handicraft to an international level and, consequently, increase the number of potential consumers.

Finding strategies to increase demand was not enough to survive. Stores had to find a way to fight counterfeiting and, thus, the process to get the certification of this handicraft started. Although there is already a certification for all the rugs embroidered with Arraiolos stitch, this document only identifies their generic features. Consequently, rugs produced in other parts of the country – mainly north of Portugal – use it, even though they do not follow the original production rules (e.g.: fringe and background must have the same color).

The process to get the certification began in January 2002, when the law no. 7/2002 was published and created a Centre for the promotion and appreciation of Arraiolos rugs (Zacarias, 2018). This public entity with headquarters in the village was formed with the purpose of defining the material, decorative and aesthetic features of the rug; organizing the certification process; and promoting and supporting this economic activity. Nevertheless, 17 years have passed, and producers are still waiting for the disclosure of the process. Miguel Cabrita, state secretary of employment, is now the person responsible to deal with the application, which is pending due to lack of the regulation needed to be published in the national official journal. According to Rui Lobo, the representative of the *Centro Interpretativo do Tapete de Arraiolos*, the reason why this process does not come to an end is lack of political will. He explained that this certification implies an organization of the business: rules of production must be defined; so, embroiderers will lose freedom, and this might create some frictions. Moreover, the costs of guaranteeing the high quality of a certified product are demanding, motivating the inertia of the municipality.

While waiting for the certification, the municipality and *Turismo do Alentejo* started to work on the Arraiolos rugs candidacy to the UNESCO's Convention for the Safeguarding of the Intangible Cultural Heritage. To the cultural value be recognized, the handicraft has to be registered in National Inventory, but the documents were only submitted in September 2019.

Despite this unfavorable scenario, the Portuguese economy has improved significantly over the past years, which is reflected by a GDP that has returned to its pre-crisis level and by a 10 percent decline in unemployment rate since 2013 to below 7%. These positive results were mainly a consequence of the boom in tourism, since travel exports grew at an annual rate higher than 10 percent between 2010 and 2017, representing almost half of all service exports. Improvements in the fiscal balance entailed a fall in the public debt-to-GDP ratio from 130.6 percent in 2014 to around 121 percent in 2018. However, the debt burden remains as one of the highest among EU members and, together with the bank vulnerabilities driven by a high bank debt, it limits the ability to respond to economic shocks. Furthermore, Portugal has a high poverty rate of the working age population and comparatively low living standards, making the population perceive itself to be worse off than 10 years ago (OECD, 2019).

The economy is projected to continue expanding at 2% annual rate between 2018 and 2020 (Appendix 9). Additionally, employment gains and rising real wages will support consumption growth and inflation will increase slightly. It is expected a slowdown in the pace of trades with major partners, impacting negatively further export growth. For instance, with Brexit, an increase in trade barriers between Portugal and the UK can have a direct impact on the economy, as Britain is Portugal's fourth largest export market (OECD, 2019).

Economic value: Estimating the economic value of this business was the hardest part, since this industry has no clearly defined boundaries and has an informal character. Indeed, the first step was to decide what should be considered as Arraiolos rug, which introduced a trade-off. When considering as Arraiolos rugs all hand-woven rugs that resort to the Arraiolos stitch, the market would have a significant size, but the production would lose part of its essence. On the other hand, when only considering the productions that follow the original rugs, the market would be restricted to the nine stores located in the village, and this small size, together with the current weak branding, could threaten the continuity of the business. Being aware of the pros



and cons, to address this work project, it was chosen the purest definition of Arraiolos rug, because it is the one that keeps a distinctive element: the history. The second step was to obtain some KPIs to understand better this business. When trying to address this topic, the informal character of this business created a barrier. To avoid taxes, stores do not declare labor costs, neither sales in case of customers not requiring an invoice, thus, the real economic value could not be extracted from the financial statements of these companies. Instead, it was estimated through the interviews. Store owners stated that they could only sell two rugs annually during the financial crisis, while in 2018 the revenues ranged from 30.000€ to 40.000€ per store. Even though the current economic value of the business is around 300.000€ per year, the revenues obtained from the 80's until the recession period were relatively higher. Consequently, if the most suitable strategies are applied in the present, this amount is expected to increase until Portugal fully recovers. Regarding labor force, each store has around 20 rug makers, however, only 15 of those are exclusive, the others supply several stores. So, the number of embroiderers is estimated to be around 150.

**Societal:** Consumers are becoming more demanding and, thus, price and product features are not the only elements taken into consideration. Indeed, European consumers are becoming more aware of global social imbalances, thus, despite their price-sensitivity, they are willing to pay an extra amount for products produced in companies committed to positive social and environmental measures. Mainly in textile sector, consumers don't buy from companies involved in social scandals like child labor, even if prices are more attractive. Furthermore, the market has been affected by a green shift. The use of eco-friendly materials and innovative methods in packaging to reduce ecological footprint became more attractive to buyers, putting products in the evaluation stage even when they don't present the best performance. All these trends resulted in the need for information on labels and for social and environmental certifications, culminating in a greater public pressure for transparency.

Besides sustainability, people nowadays want to have unique products, thus the ability to customize or personalize products according to consumers' tastes is a valuable element. It creates an emotional connection between the product and the buyer by storytelling: a product becomes more than just a product when it starts to be more personal.

**Technological:** The technological level in Arraiolos rugs is low, due to the product's nature: its value lies in the fact that no machinery is used. Indeed, the hand-woven industry can only resort to technology to improve the customer experience, through a website that shows the products available and allows for personalization. Nowadays, few stores have developed an online platform, but they are present on social media to facilitate the contact with customers. Facebook is the most used platform, where stores post pictures of the rugs produced, and clients can message them to get additional information and, if interested, make an order.

**Environmental:** Sustainability is a growing trend in this industry. Although embroidering has no significant impact on the ecosystem, as no machinery or chemical is needed; the situation changes when it comes to raw materials. Obtaining wool requires the use of synthetic insecticides and detergents, major soil contaminators, and sheep production increases emissions of methane gas. Moreover, each kilogram of wool requires the use of 150 liters of water; and, when compared to synthetic fibers, energy consumption is higher, due to longer drying time, ironing and losses in the process. This industry must also consider the impact of transportation, as suppliers are located in the other regions of Portugal (Mira d'Aire and Seia). Moving to packaging, rugs are transported as rolls, wrapped in plastic film and jute sacking, which also leaves space for environmentally friendly initiatives.

**Legal:** There are several laws that producers must be aware of when entering in this industry. Firstly, the European Union regulated product safety in the General Product Safety Directive (GPSD), forcing European products to be safe when used as intended. Secondly, producers must comply with several rules regarding the names, composition and labeling of textile

products. This is regulated for the surface of the product; however, it is not compulsory to specify the content for the backing for the rug. Lastly, producers must be aware that the use of some chemicals is restricted, for instance, azo dyes are typically used in textile products and their use is forbidden in Europe, as they can be carcinogenic (CBI, 2015).

### **III.2 - SWOT analysis**

**Strengths:** In 1994, Michael E. Porter elaborated a report on how to make the Portuguese economy more efficient. In the analysis, the Harvard Academic defended that Portugal should focus on traditionally strong clusters: wine, tourism, auto-industry, footwear, textiles and wood products (Porter, 1998). Not only Arraiolos rugs are included in the textile industry, but they are also a product that can leverage from tourism, since they tell the story of a village and all the people who lived there and contributed to the development of this art.

The major strength of these rugs is their cultural value. In fact, people value characteristics that go beyond the functional features of a product and they love a good storytelling. Additionally, Arraiolos rugs can leverage from being distinct from Persian and Turkish rugs, which also carry a cultural value of the region. They diverge in terms of execution: while Turkish and Persian rugs resort to looms and use symmetric and asymmetric stitches, Arraiolos rugs are hand embroidered and use the Arraiolos stitch (Ncultura).

**Weaknesses:** If in the beginning, developing countries were able to deliver low cost products but easily distinguishable from the original ones, through time, the workforce of these countries started to apply the same techniques and to use the same materials as developed countries. In an opposite way, producers of Arraiolos rugs decided that the best strategy to remain competitive was to set low prices at the cost of quality, which increased the similarities between original rugs and counterfeits.

This difficulty in outstanding from unfair competition is raised by the disorganization level faced within this industry. Cooperation between *Associação de Produtores de Tapetes*

*de Arraiolos* (PROTAR) and stores is almost nonexistent, thus, each entity comes up with isolated measures to solve the business problems. Indeed, store owners are more focused on being perceived as better than the other producers than on fighting unfair competition.

**Opportunities:** Predictions of GDP, private consumption expenditure and housing market are good indicators for the performance in the hand-woven rug industry, which is expected to continue growing. Portuguese GDP and private consumption expenditure face a positive trend after the recession period, and the housing market is experiencing a boom. Indeed, the decrease in the amount spent on both durable and non-durable goods and services was replaced by an increase from 2014 onwards (Appendix 10). Moreover, property prices in Portugal rose 6.09% (5.39% in real terms) in 2018 compared to the previous year (Appendix 11), as supply cannot respond to a growing demand.

Although the internal market is showing improvements, there are also opportunities to invest in foreign markets. Germany, the United Kingdom and Denmark represent a large share in the imports of hand-woven rugs. It is a fact that Denmark does not belong to the European Union and the United Kingdom is in the process of leaving it, but Denmark pays to have no customs duties with country members and UK is fighting to get similar benefits. Therefore, Arraiolos rugs can leverage from no trade barriers and find a place in these foreign markets.

Statistics show that there is an increasing interest of the mid-high and high-end segments about the history behind each product and, thus, national traditional crafts gain relevance. Moreover, the shift of tourists from the most popular Portuguese cities to Alentejo has a positive impact on the awareness of products produced in this region. Indeed, Brazilian and North American visitors seem to be the new customers for this product.

**Threats:** The first threat is associated with the low attractiveness of this industry to the labor force. The consequences are reflected in an old labor force and in the disaffectedness noticed amongst young people to learn this art and make a job of it. Thus, the future of this handicraft

is at risk. Even if this demographic problem is solved, the exploitation of this business must be careful. Leveraging on the boom in tourism can have negative consequences for the cultural value ingrained in Arraiolos rugs. Most of the stores have enlarged their portfolio to meet the tourists demand, starting to sell products with modern drawings and designs, just keeping the famous stitch. This commodification of cultural goods to raise revenues may erode the entire story behind this product, threatening the essence of the handicraft.

### **III.3 - Market segmentation**

To segment the market for Arraiolos rugs, consumers were grouped based on the reasons why they buy the product. In this section, four distinct segments (quality seekers, tradition keepers, addicted to souvenirs, culture fanatics) will be defined and evaluated.

“**Quality seekers**” is a group of customers who value the quality of the product and are willing to pay a premium amount to get that attribute. It is composed by Portuguese young adults, who recognize the durability of these rugs, as they were an outstanding element in the houses of their relatives and lasted for years without losing the good looking. Even though they choose to buy an Arraiolos rug, they avoid the use of traditional printing, adapting the embroidery to have modern designs and printings. Consequently, they value the possibility of personalization, opting for rugs with clean straight lines to fit better in their modern houses.

For this segment, counterfeit rugs are perceived as a lower quality product and, thus, not considered when deciding. Moreover, the willingness to pay a premium to get additional quality leads to a higher profitability per capita. Nevertheless, there are some segment features that lack in attractiveness. Firstly, stores of Arraiolos rugs face difficulties in meeting the demand for personalization. In order to design his own rug, customers have to send pictures of what they want via social media; the store owner receives them and makes the draft in graph paper, sending it to the customer for approval; then customers have to choose the colors, being limited to the sort available. Moreover, it is not easy to put in practice what clients

want, which creates the need to provide samples. To sum up, personalization is hard and time consuming, mainly due to the low involvement with digital procedures. Secondly, valuing more the quality and less the history around the rugs gives less motifs for customers to travel to Arraiolos with the purpose of buying a rug. Lastly, even though the size of this group increased when Portugal started to recover from recession, the positive growth became not so evident when the trend of using traditional elements in decoration appeared.

Similarly to “Quality seekers”, “**Tradition keepers**” remember the Arraiolos rug as an outstanding element in their parents’ houses; the difference is that the most valuable attribute is the history around it. When moving out, these clients want to integrate the rug in the new house’s decoration, returning to Arraiolos to make a purchase. They tend to keep the rugs purchased by their relatives as a benchmark, choosing really similar printings. However, they value customization, since the colors of the rug have to be adapted to the new house.

Valuing tradition is crucial to ensure the continuity of this handicraft and the major strength of the segment. Nevertheless, “Tradition keepers” consider all traditional handicrafts produced in Alentejo as substitutes; therefore, they are likely to choose Tapestry of Portalegre over Arraiolos rugs, due to the higher popularity. In terms of size, the vintage look in the decoration was a huge trend in 2019, allowing this segment to become larger than “Quality keepers”. However, this growth can be affected by the demographic shift of people to the coast line, as less and less people will be in the region and, thus, involved with this art.

“**Addicted to souvenirs**” are national and international tourists who want to bring something home to remember their visit to Alentejo. They typically don’t have the purchasing power needed to buy rugs of high dimension, or they do but face some logistic barriers (i.e.: high customs duties, sometimes higher than the effective cost of the rug), so, they end up buying a small and less expensive Arraiolos rug. Moreover, they are willing to choose the alternative products offered by stores, which also use the Arraiolos stitch.

On the one hand, the size of this segment is benefiting from the tourism boom and the movement of tourists from the highly touristic areas to the hidden gems. Indeed, “Addicted to souvenirs” is believed to be the largest segment, because Portugal is a country typically chosen by tourists who look for affordable options. On the other hand, profitability per customer is low, since this group buys few pieces and with small dimensions. There is a low chance of these customers ordering a rug later or returning to Arraiolos with the purpose of buying it, thus, stores have to capture their attention in the moment they enter the store and make the sale. To accentuate the problem, stores usually don’t have a high stock, limiting the options for customers and, thus, decreasing the probability of selling.

Lastly, “**Culture lovers**” are foreign tourists who fell in love with the culture of Alentejo and, consequently, with the history of the Arraiolos rugs. This is the segment that values the most this handicraft, spending much time in the store to analyze all rugs. The difference for “Addicted to souvenirs” is that these customers have a high purchasing power: they purchase immediately or order later medium to large carpets, and usually more than one.

Store owners have to create strong connections with these customers in the minute they enter the store, they have to leverage from the unique story of this handicraft to eliminate any substitute from customers’ consideration set. Moreover, stores need to have the capacity of dealing with large orders, which makes them highly dependent on the number embroiderers they can get to do the job. Regarding size, this segment also benefited from the increase in tourism and the growth rate is expected to be even higher, because the average expenditure per tourist has been experiencing a positive trend since 2013 (Appendix 12).

#### **IV - Recommendations to Arraiolos rugs**

##### **IV.1 - A plan to solve the structural problems**

While, in the footwear industry, there is an effective association to advice and support companies and all entities cooperate to improve the business; in the village, the scenario is the

opposite. *Associação dos Produtores de Tapetes de Arraiolos* (PROTAR) has been focused on lobbying government to get the certification, losing resources that could be allocated to the creation of a cooperative environment that incentivizes the exchange of ideas (Porter, 1998).

PROTAR should work as a central element, supporting all entities by providing information about the current challenges and new opportunities, and designing a strategic plan based on that. It must be aware of new trends, track the innovations implemented by other industries to fight similar issues, and analyze a potential space in international markets. This analysis must be communicated to the stores and the consequent action closely monitored. Nevertheless, this entity can only provide a clear vision, if it is able to get subsidies from the government. With this financial support, stores will generate a higher amount and, thus, the incentives to tax evasion will be lower, facilitating the tracking of decision outcomes.

Besides working closely with stores, this association must define together with CITA a suitable promotion plan and organize trade fairs. Furthermore, ensuring the continuity of this craft can be done by leveraging from existent external infrastructures. For instance, PROTAR can develop a partnership with *Escola Profissional da Região do Alentejo*, in order to create a course oriented to traditional crafts in this school that is focused on preparing young people to the professional world. Moreover, PROTAR together with *Instituto de Emprego e Formação Profissional* can qualify workforce, providing paid workshops to unemployed people. Lastly, an agreement with *Universidade de Évora* could not only attract people to the business, but also introduce innovation. When incentivizing Arts and Multimedia students to participate in a contest, innovative ideas for this production and for a digital platform which facilitates the process of personalization and purchase could emerge (Appendix 13).

## **IV.2 - Targeting and positioning**

When performing a market segmentation, “**culture lovers**” stands out as the segment with the highest attractiveness in terms of the profitability and prospects of growth. Moreover,



when focusing on a segment which values the cultural component, stores will avoid the loss of this art's essence. Nevertheless, there are matters for which the segment's attractiveness is lower, namely the pressure to establish strong connections with customers in the moment and the capacity to answer to large orders. These are topics on which stores have to make some improvements, but an optimal outcome is achievable. Selected the target, stores should follow the positioning statement: *To **culture lovers** who admire the culture of Alentejo, Arraiolos rugs are unique handmade carpets that hide the centenary history of a village and its people, as they are the artistic manifestation of the environment that surrounds local embroiderers.*

### **IV.3 – Marketing mix: set of integrated initiatives**

**IV.3.1 - Product** Arraiolos rug is a luxurious decorative product, as it combines the premium quality with a cultural component. Indeed, besides the high-quality sheep wool, which ensures comfort and security to consumers, these rugs tell the story of a production which resides in the village since the 16<sup>th</sup> century, reflecting the experiences of this people through the time.

As the municipality has been defending, coming back to the use of two stitches in the embroidery will be beneficial, because this technique resembles the oldest rugs, having an incremental cultural value, and a smaller stitch is correlated with higher quality. Furthermore, developing countries still do not dominate this technique and, thus, the impact of unfair trade will be minimal in the short run. To benefit from this comparative advantage in the long run, this production has to resort to properties rights to be protected from unfair competition.

Customers must associate the brand name “Arraiolos rugs” to a high-quality and green product that represents Alentejo's identity. Therefore, it is necessary to progressively link this brand to sustainability, by finding alternatives to sheep wool and to the traditional packaging, without compromising the quality; as well as measures to an efficient use of resources. This will not only reduce footprint, but also meet the needs of green consumers, which represent 25% of consumers in Western Europe (CBI, 2019) and this share is expected to increase.

Lastly, labels must deliver transparency, providing information about composition, size, origin and care (legal requirements), communicating the cultural value and any adopted measure that aims to turn this industry more sustainable and socially responsible. A “Made in Arraiolos” label will differentiate this business from other productions in the country and from productions in developing economies, which are usually associated with social scandals.

**IV.3.2 - Price** Some brands adopt a high price strategy to be perceived by clients as a premium and distance themselves from regular brands. It is this strategy that producers of Arraiolos rugs must consider, as the current price does not reflect the work each embroiderer puts on it. Furthermore, re-introducing the use of stem stitch will increase the detail and, consequently, the quality of the produced Arraiolos rugs, which has to be reflected on price.

**IV.3.3 - Place** When thinking about the best place to make Arraiolos rugs available, the answer is immediate. Since this production started in the village and became a symbol of its culture, all steps from production until the sale should be done in the village. Nevertheless, it is essential to facilitate the connections to the village. As there are few options for tourists to go from the district capital, Évora, to Arraiolos, the suggestion would be, together with the municipalities and *Turismo do Alentejo*, provide one touristic bus to do the trajectory.

**IV.3.4 - Promotion** Arraiolos rugs started as a symbol of exclusivity of the ones who possessed them, and it is this symbolism that should be used in promotion. To do this, stores must use storytelling to make people emotionally connected to the product. Moreover, story is what turns it unique, since the other features (stitch, materials, drawings) are easily imitable.

As a luxurious product, communication channels have to be chosen accordingly and a wise product placement seems to be the best strategy. By making a partnership with luxurious hotels in Alentejo, stores would decorate common areas and/or rooms and, in exchange, they would benefit from visibility, since rugs would be an outstanding item in the place where potential customers are staying. Similarly to target, luxury tourists are high-income consumers

who value the experience more than possession and choose Alentejo to enjoy exclusive holidays in a hidden gem, absorb its culture, drink its wine and enjoy the traditional dishes.

The production of Arraiolos rugs could also benefit from an association with the wine industry, as the product has prestige all around the world. For instance, *Fundação Eugénio de Almeida* is the owner of the second best wine of Portugal, *Pêra Manca*, and is dedicated to promote the culture of the region; thus, an agreement to exhibit exclusive carpets in its wine house would be useful to engage with the audience that again matches the profile of the selected target. From wine tourists' point of view, this partnership would provide them a better experience, because they would have contact with other symbols of the region.

Both plans leverage from an expansion in luxury and wine tourism to build the desired image; however, additional measures have to be implemented to increase international visibility. In the hand-woven rugs category, foreigners easily remember the ones from Persia, Morocco or Turkey; and only those who travelled to Alentejo think of Arraiolos rugs. To raise awareness, this industry must bet on being more active in popular international craft fairs, mainly in Brazil, United States and North European countries, since they currently reveal the highest interest for these hand-woven rugs.

## **V - Research limitations**

The major limitation found during the development of this work project was to have a trustful representation of the reality. Indeed, Arraiolos rugs are facing a crisis and this is shortening the number of customers, which was already small due to the luxury nature. Being unable to perform surveys and in-depth interviews to a statistically representative group, segmentation was based on in-store observations of a small sample. Moreover, store owners were skeptical to share information about the business, since they resort to accounting frauds to keep their stores. Lastly, all visits to Arraiolos were done during the weekends and between August and September, however, the potential influence of the variable time was not tested.

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## Appendices

### Appendix 1: Original Arraiolos rugs compared to oriental rugs



Original Arraiolos rug  
Source: CITA  
Photo by António Cunha



Traditional Sivas Turkish rug  
Source: rejuvenation.com

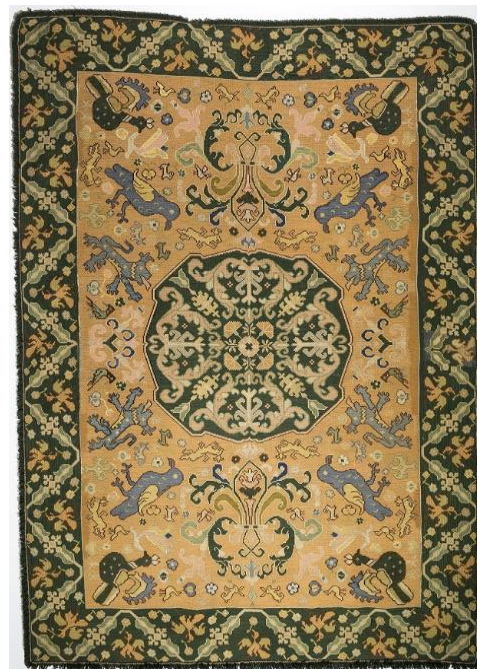


Heriz Handmade Persian  
Source: antiqueorientalrugs.com

### Appendix 2: 19<sup>th</sup> century Arraiolos rugs compared to the original ones



Original Arraiolos rug  
Source: CITA  
Photo by António Cunha



Arraiolos rug with locally inspired motifs  
Source: CITA  
Photo by António Cunha

### **Appendix 3: Interview guide of the first visit to Arraiolos**

Warm up: I'm currently doing my thesis in Nova School of Business about the Arraiolos rug, thus, I would like to make short questions in order to understand the business:

Question 1: Can you explain to me what makes Arraiolos rugs unique?

Question 2: Since it is produced without any machinery, how long it takes to acquire the technique and produce a medium-sized rug?

Question 3: What about the raw materials, who are the suppliers?

Question 4: Through my readings, I have found several articles talking a crisis in this production; can you explain to me what is happening?

Question 5: (when the interviewees introduce the topic of counterfeiting) What were the strategies to overcome the unfair competition?

### **Appendix 4: Interview guide of the second visit to Arraiolos**

Warm up: I'm currently doing my thesis in Nova School of Business about the Arraiolos rug, thus, I would like to make short questions in order to understand how much this business is worth, the type of consumers and their behaviors.

Question 1: Who are the typical consumers? Individuals or institutions?

Question 2: What are the motivations that make people purchase an Arraiolos rug instead of any other type of rug?

(Based on the motivations given, try to develop a profile for each motivation)

Question 2.1: Does the motivation varies across nationalities?

Question 2.2: On average, how many rugs does this client buy?

Question 2.3: On average, what are the dimensions of the rugs purchased?

Question 2.4: What is the average purchase frequency per client?

Question 2.5: What is their preference in terms of design? Classical or modern?

Question 2.6: What is their preference in terms of patterns?

Question 2.7: Do they prefer imitations of original rugs (the ones they see in the museum for instance), recreations of the original rugs or totally new rugs? Do they prefer to buy the rugs displayed in store or to customize/personalize rugs?

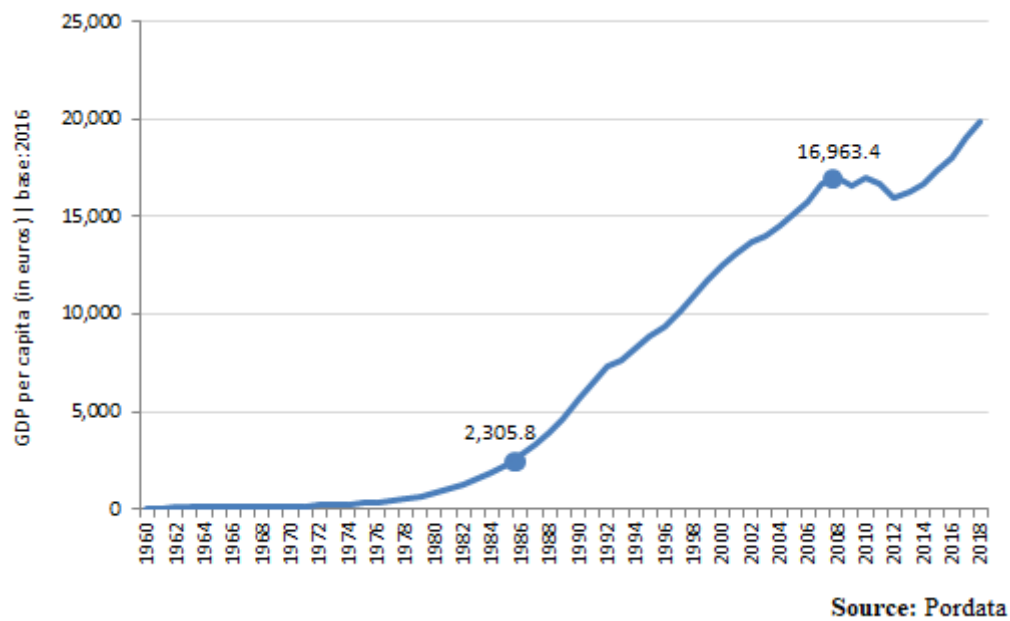
Question 2.8: How long they stay in store to choose a rug?

Question 3: The information you gave me about the clients will be really useful, now I have a last

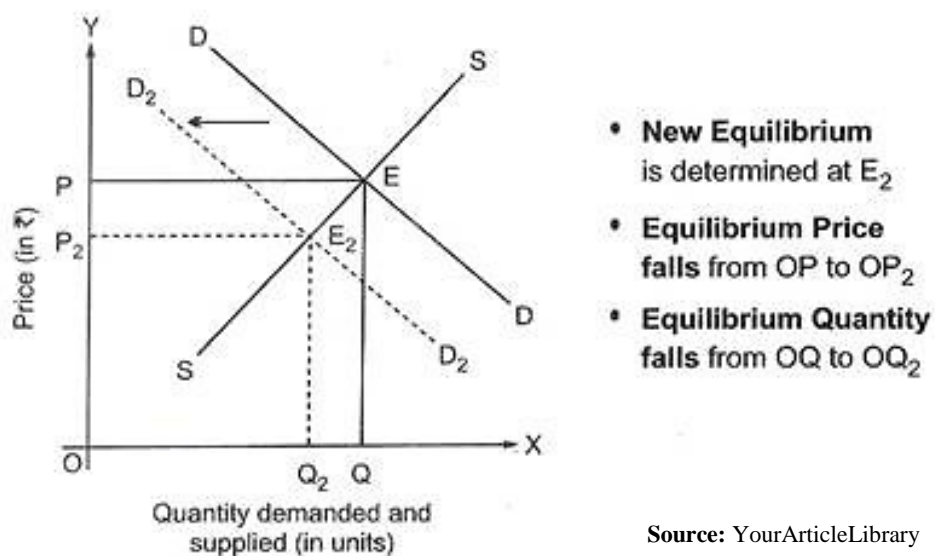


question regarding another topic. Along this project, I learned about the history and the current situation of Arraiolos rugs, but I have no idea of the economic value of the business. Is it possible to know the revenue that can be extracted annually, the number of people who work for this store and their remuneration?

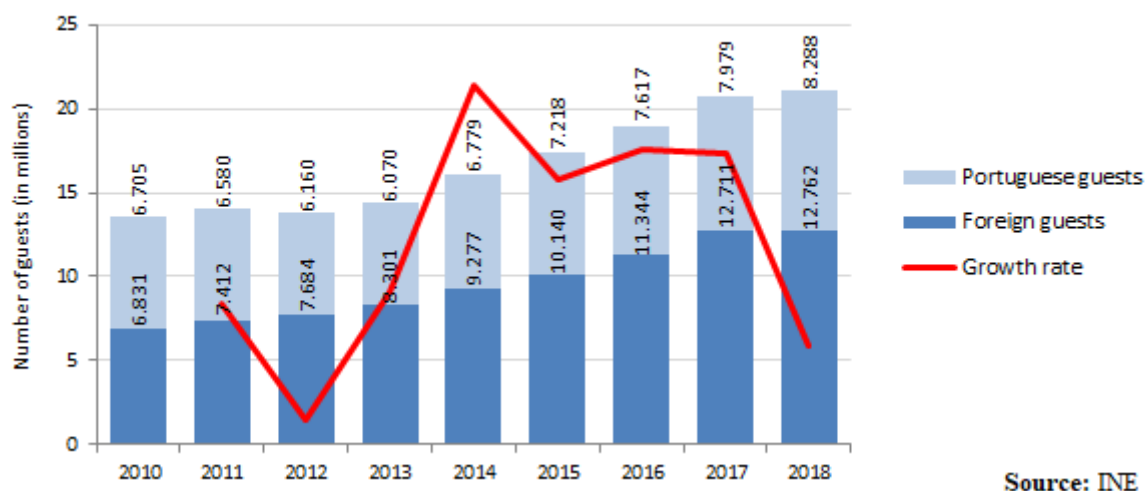
## Appendix 5: Portuguese GDP from 1960 to 2018



## Appendix 6: Change in price-quantity equilibria when demand contracts



## Appendix 7: Evolution in guests between 2010 and 2018



## Appendix 8: Tourism in Alentejo | june 2019

INDICATORS									
MONTHLY - June					ACCUMULATED - June				
Value	Var. 19/18	Share	Var. 19/18		Value	Var. 19/18	Share	Var. 19/18	
2019	%	Abs.	2019	p.p.	2019	%	Abs.	2019	p.p.
<b>170.4</b>	<b>13.5</b>	<b>20.2</b>	<b>100.0</b>		<b>699.3</b>	<b>9.4</b>	<b>60.3</b>	<b>100.0</b>	
113.6	19.4	18.5	66.7	3.3	462.6	13.0	53.3	66.2	2.1
56.7	3.2	1.8	33.3	-3.3	236.7	3.0	7.0	33.8	-2.1
116.2	10.1	10.7	68.2	-2.1	495.4	7.6	35.0	70.8	-1.2
n.d.					n.d.				
<b>299.7</b>	<b>13.3</b>	<b>35.1</b>	<b>100.0</b>		<b>1194.3</b>	<b>11.6</b>	<b>124.0</b>	<b>100.0</b>	
201.7	20.3	34	74.2	3.9	785.2	18.2	121.1	65.7	3.7
98	1.1	1.1	25.8	-3.9	409.1	0.7	2.9	34.3	-3.7
203.9	10.6	19.6	68	-1.6	840.4	10.1	77.3	70.4	-0.9
n.d.					n.d.				

Source: Turismo de Portugal

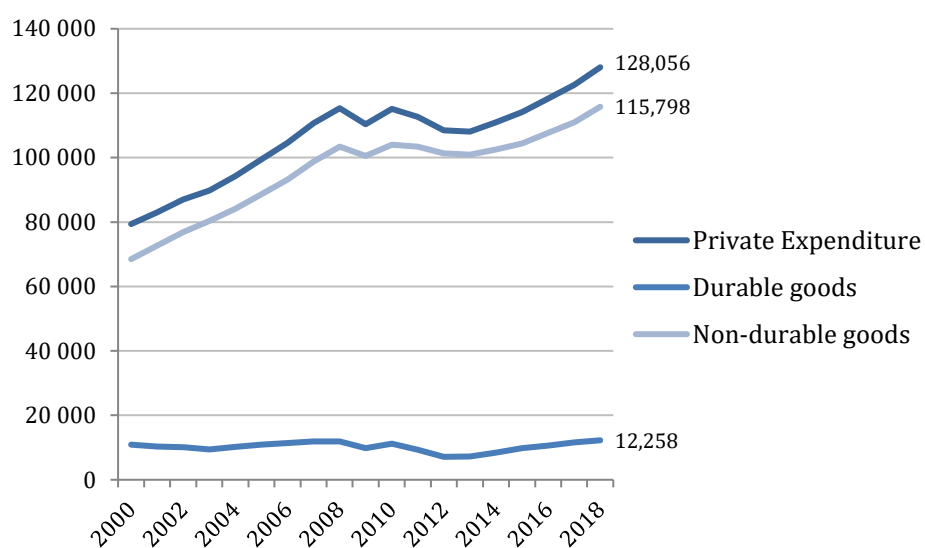
## Appendix 9: Macroeconomic indicators and projections

Annual percentage change, volume (2011 prices)

	2015 Current prices (billion EUR)	2016	2017	2018	2019	2020
<b>Gross domestic product (GDP)</b>	<b>179.8</b>	<b>1.9</b>	<b>2.8</b>	<b>2.1</b>	<b>2.1</b>	<b>1.9</b>
Private consumption	117.7	2.4	2.3	2.2	1.8	2.0
Government consumption	32.6	0.8	0.2	1.0	0.2	-0.3
Gross fixed capital formation	27.8	2.3	9.2	4.6	6.0	5.0
Housing	4.4	5.1	6.4	1.7	5.0	4.8
Final domestic demand	178.2	2.1	3.0	2.4	2.2	2.1
Stockbuilding <sup>1</sup>	0.6	-0.1	0.0	0.0	0.0	0.0
Total domestic demand	178.8	2.0	3.0	2.4	2.2	2.1
Exports of goods and services	72.6	4.4	7.8	5.8	4.3	4.0
Imports of goods and services	71.6	4.7	8.1	6.2	4.8	4.5
Net exports <sup>1</sup>	1.0	-0.1	0.0	-0.1	-0.2	-0.2

Source: OECD

## Appendix 10: Portuguese private consumption expenditure



Source: Pordata

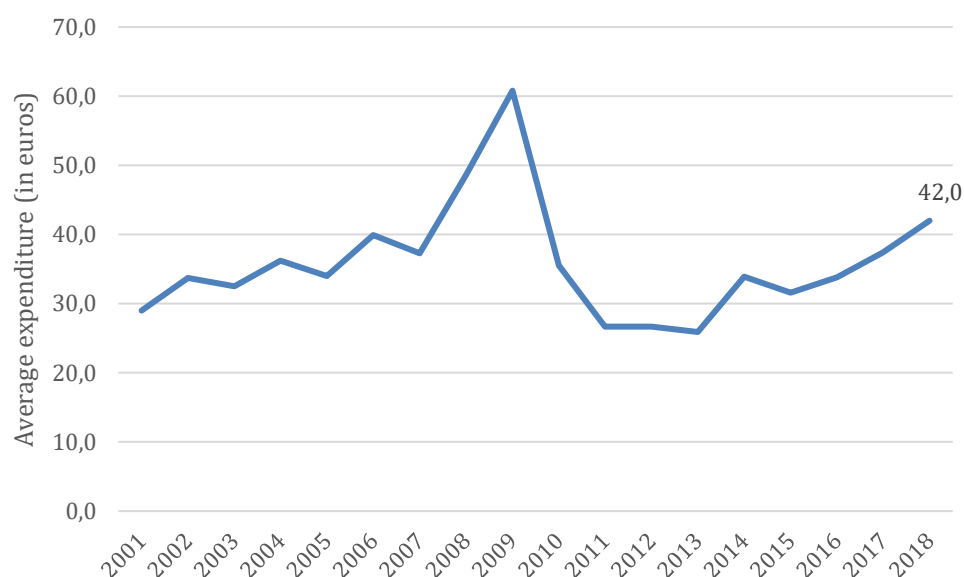
## Appendix 11: House price change in Portugal

Percentage change over a year yearly



Source: INE

## Appendix 12: Average expenditure per tourist



Source: Pordata

## Appendix 13: Suggested structure for this business

